Government of Nova Scotia

VOLUNTARY PLANNING

Shaping Nova Scotia's Future

Preliminary Report of the Task Force on Fiscal Management

December 20,1999

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Preface

On October 20, 1999, Premier John Hamm announced that Voluntary Planning had agreed to appoint a special, independent task force to advise his new government on how to save Nova Scotia from itself.

That's not how he described it, of course. In the formal terms of reference (reproduced in full in Appendix 2), the official role of the Task Force is more bureaucratically described as being to:

- undertake a review of the financial position of the Province of Nova Scotia, including its Crown corporations, agencies, boards and commissions;
- submit recommendations to ensure fiscal openness and accountability, to improve government financial management, and to eliminate deficit financing;
- establish a framework or set of guidelines which will allow for the immediate review of all government programs, including its Crown corporations, agencies, boards and commissions with a view to eliminating those programs that cannot be justified on the basis of necessity, cost and efficiency;
- recommend on any other matters the Task Force may deem necessary as a result of information coming to its attention during the course of the review.

In carrying out those tasks, the premier invited us to study the Government's own internal files and documents, speak with those involved in the decision-making process, consult widely with other governments and outside experts, consider submissions from the public and, oh yes, file our completed report and recommendations within 90 days of our appointment.

That we are presenting this preliminary report today, and are still on track to meet the deadline of late January for our final report is a tribute to the efforts of many people.

I especially want to thank my colleagues on the Task Force, busy people with their own lives and important responsibilities, who have quite literally given up their days, nights and weekends for the past two months to make sure we not only complete this first phase of our work on time but also that we come up with concrete recommendations for resolving our fiscal problems that are practical, thoughtful and helpful.

In doing that, we've had a lot of help: from the staff of Voluntary Planning who

may have put in even more hours than the members of the Task Force preparing and organizing all the research and resources, as well as in finding answers to our many questions; from the Auditor-General, who served as a special advisor to the Task Force and provided us with the benefit of his hard-earned wisdom on critical issues such as financial accountability; from the visiting experts from four different provinces and the federal government who generously offered us insights into the issues we face and how other jurisdictions have handled fiscal problems similar to the ones Nova Scotia now faces; from the many dedicated professionals within the province's public service who helped us understand how the current system works — and sometimes doesn't — and, of course, from the submissions of 677 individuals and organizations in Nova Scotia who offered their own insights and suggestions for dealing with our fiscal problems.

Nova Scotians — both inside and outside government — have clearly indicated they are interested in discussing these issues and willing to make changes to solve our problems. This is not only encouraging to us in our work but will also be vital to the success of the Government as it tackles the daunting task ahead.

Which is, boldly stated, to save Nova Scotia from itself.

For more than two decades, we have been living beyond our means. We ran up deficits year after year after year. We accumulated a huge debt with no clear plan to pay if off. We claimed we eliminated the deficit without really even coming to terms with the full extent of it. We lost credibility with other levels of government and with those who lend us money. We have made ourselves — and our province's future — vulnerable to forces over which we have little control.

We can't go on this way.

We have to change — and change now. For today. And for the future.

This preliminary report offers a blueprint to help the Government — and Nova Scotians — come to terms with our current fiscal crisis, bring the budget back into balance and establish a legislative framework to help prevent future fiscal crises.

Our plan now is to distribute this report as widely as possible — through the media, in print and on the Internet — and give Nova Scotians the opportunity to study and comment on our findings. Members of the Task Force will hold public consultations across the province early in the new year to get more feedback and suggestions.

Following that process and consideration of the results from our consultations, the Task Force will release a final report in late January 2000.

That doesn't give us much time. But then neither does Nova Scotia's current fiscal crisis.

We must immediately begin Shaping Nova Scotia's Future. For ourselves. And for our children.

Allan C. Shaw
Chair
Task Force on Fiscal Management
Voluntary Planning
December 20, 1999

Executive Summary

Nova Scotia has an immediate fiscal crisis. And a long-term structural problem. It makes no sense to deal with one without tackling the other. And we can't overcome either without making a dramatic change in our political culture. But beyond the pain, there is hope.

That's the capsule version of the challenge — and the opportunity — the Nova Scotia Task Force on Fiscal Management identified when it began its work in mid-October.

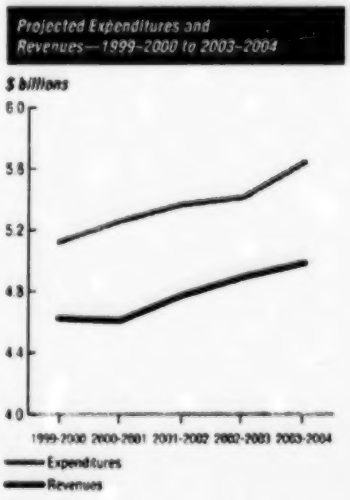
After two intense months researching the province's current fiscal situation, studying how other jurisdictions have dealt with similar financial conundrums and considering thoughtful submissions from 677 individuals and organizations, the Task Force has come up with a preliminary report it believes not only provides this Government with a process for dealing with the current crisis but also establishes a legislative framework to help future governments avoid a similar crisis.

The success of the proposals we make ultimately depends not only on a political will to change the way Government operates but also — and equally important — on a public understanding and acceptance that such changes must be made if we are to regain and maintain control of our economic destiny.

We are all in this together.

The immediate fiscal crisis

By the end of March 2000, the Nova Scotia government will have added another $500 million to our accumulated debt, bringing the total to about $11 billion. We are proceeding on the basis that the government should balance its books by 2001-02 — just two budget years from now. We realize the time frame is tight but the task is urgent.



Assuming no increase in provincial revenues, this means the Government must reduce its overall annual expenditures by 16 per cent — or about $600 million — within two years. Because there are some significant expenses over which the Government has little or no control — from the annual cost of servicing its existing debt to certain federally mandated spending — the reality is there will almost certainly have to be drastic cuts in many other programs and services in order to achieve this goal.

As part of its own review process, the Government's Priorities and Planning Secretariat is preparing a baseline inventory of every government program in every department.

This inventory should be the starting point for a rigorous, systematic review of every program in every department, agency, board and commission of government to determine whether it fulfills a core governmental function, whether it can be delivered by government or others more effectively and efficiently, or whether it should be considered as a candidate for elimination. The Task Force has prepared a framework to assist the Government in its deliberations. This review should be completed in time for the results to be

considered in preparing the 2000-01 provincial budget.

At the same time each and every department and agency of government should go through a budgeting exercise: it will prepare two separate budgets, one based on the assumption it will have 15 per cent fewer resources available to perform its functions; the second based on a 30 per cent reduction. We must emphasize that this is an exercise. Its goal is simply to provide the budgetary decision-makers with options as well as an understanding of departmental priorities.

In order to oversee the program policy review process and the budgeting exercise, the Government should appoint a small, high-level implementation team. This ad hoc team, responsible directly to cabinet, would also then be responsible for preparing proposed budgets for cabinet that balance the books in two years. The implementation team's final duty would be to make sure those budget decisions are carried out.

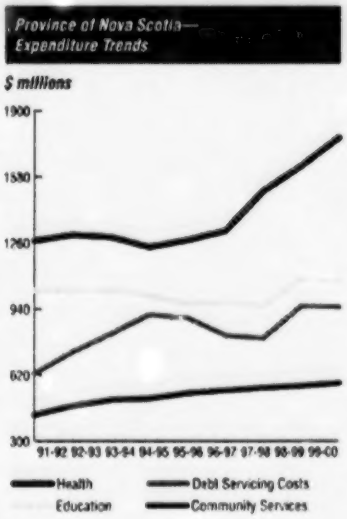
The Government asked us to develop a framework for reviewing programs rather than suggesting specific programs, services or operations to cut. But it also asked us to make recommendations "on any other matters the Task Force may deem necessary as a result of information coming to its attention during the course of the review." With that in mind, the Task Force also recommends:

- The Government should adopt a "ministries" organizational model. Such a model, which is in use in a number of other jurisdictions, would combine common-themed departments, agencies, boards, commissions and functions under one minister. This would provide for a more rational, effective delivery of programs and services.
- The Government should establish broadly based standing committees to deal with common issues — such as human resources and information technology — across ministries. Such committees would help reduce bureaucratic turf wars and encourage everyone to put the work of the Government ahead of the interests of their particular ministry.
- The Government should streamline its organizational structure so there are as few levels of bureaucracy as possible between the deputy minister and the citizen using a government program or service.
- The Government should consider all reasonable options for increasing its revenues including — where appropriate — imposing user fees for non-essential services and introducing a provincial surtax on cigarettes and alcohol. It should also consider selling certain fixed assets and use the income to pay down the debt.
- The Government must control health care spending. Health spending currently represents 35 per cent — and growing — of all government expenses. If health care spending continues to escalate at current rates it could eventually swallow every dollar government collects — and more. It is therefore imperative that government rethink health care delivery as well as its role in providing health care.
- The Government should take all reasonable measures — including imposing a freeze on hiring in the public service and negotiating unpaid leave options with government employees' unions — to reduce the size and cost of the government payroll. The Task Force acknowledges that achieving the spending reduction targets the Government has set will inevitably result in dislocation and hardship. We urge the Government to work with its employees, employee unions and others who may lose important services in order to minimize the impact of these cuts and provide for an orderly, humane transition to a smaller, more effective government.
- The Government should stop providing grants and forgivable loans to business, except in the most exceptional and publicly explained circumstances. It should also manage its existing loan portfolio in a more businesslike and professional way.

- The Government should dramatically reduce the number of provincially-appointed agencies, boards and commissions. Those that remain should be made more accountable through the appropriate ministry.
- The Government should repatriate as much of its existing foreign debt as possible and ensure that any remaining debt is insulated from the impact of currency fluctuation and other forces beyond the province's control.
- The Government should press Ottawa to review its policies with respect to transfer payments and cost-shared programs in health care, education and social services.

The long-term structural and Vision problems

The current fiscal crisis has developed, in large measure, because we don't have a legislated process in place to enable us to plan, assess, monitor and review how we spend public money on a continuing basis in a way that is both open and accountable. If we don't put the proper systems in place now, future governments will almost inevitably find themselves in fiscal crises similar to the current one.



The first step is for the Government to clearly identify a common Vision, based on fairness and equitable social values, for the economic future of our province. To make sure we achieve our vision, the Government must define a limited number of specific, measurable goals on the road to the Vision. Finally, it must put in place a legislated framework and a process we can all use to measure its performance against those goals.

The Task Force believes that our Vision for Nova Scotia's economic future should be to control our own economy in order to enhance the opportunities and well-being of all our citizens.

In order to achieve that Vision, the Government should establish — and commit itself to reaching — the following specific goals:

- Eliminate the debt in 20 years.
- Become a **HAVE** province in 10 years.
- Become a world leader in learning in 10 to 20 years.
- Significantly improve our role in world trading in 20 years.

Government must keep in mind this Vision and those goals as it develop its immediate and short-term fiscal plans.

In order to keep its "eyes on the prize" of the Vision, the Government should move beyond annual budgeting to develop an overall economic strategy that will include multi-year, next-year and annual fiscal action plans. Such multi-year plans — the Task Force suggests a continuous three-year horizon — would help ministries focus on outcomes — where they want to be in terms of the Vision in three years — even as they deal with the inputs — the inevitable day-to-day and next-year demands.

This approach will only work, of course, if it is accompanied by a process of open public consultation, continuous assessment and regular accountability. The

Government should not only consult widely — and in a timely manner — with Nova Scotians in the preparation of its budget and fiscal action plans but it should also produce clear and understandable annual reports documenting its activities and outlining its future plans. Government must also develop broad social and economic outcome measurements to provide the public with the information they'll need to understand and help shape future public policy.

It is not enough to depend on the goodwill of the Government of the day to ensure that all of this happens. This planning and accountability framework (see Appendix 6) must be enshrined in legislation.

Once such a framework is legislated and established, it will help develop the critically important organizational culture of continuous improvement within government that will enable it to become more efficient, effective, service-oriented and productive.

We believe smaller can also be better — if there is a clear focus on serving the citizen. We all have our own favourite horror stories of bureaucracy: spending hours on the telephone, for example, calling one department after another, dealing with one layer after another of bureaucracy while trying to get the answer to what should be one simple question. We need to make it easier to citizens to get what they need from their Government.

During our research, we learned about Service Ontario, a government initiative to provide "a single window" for people needing particular kinds of government service. Before Service Ontario, for example, an entrepreneur might need 14 weeks to get the 40 licences and permits to start a small business. By dramatically reducing the number of licences and making it possible to apply online, the process can now be completed in 20 minutes. The Ontario system is adapted from an Australia model that allows consumers there to pay their taxes, utility bills, register to vote, obtain a copy of your birth certificate, renew your driver's licence, or get a hunting and fishing licence, all from one kiosk or web site. The system not only provides better service but it also saves the Government money too.

While the focus of this report is on taming the deficit and debt, making government smaller and lowering public expectations about what government can do, we don't want to suggest for a moment that there still isn't plenty of room for optimism about our economic possibilities either.

Consider just the growing information technology sector. If we could achieve annual technology exports of $1.5 billion it would mean 6,000 jobs with an annual payroll of $360 million and increased government revenues of $60 million per year.

We can achieve these increases in exports — and more — but we need an economic strategy in place that will allow us to identify and take advantage of those opportunities. Much of the groundwork has already been done: Creating Our Own Future, Voluntary Planning's own 1991 economic develop strategy paper, and Government By Design, developed by the previous administration, are both useful starting points for developing a new economic strategy for the new millennium.

We need to begin thinking strategically — and creatively — about where we invest our scarce resources.

When the Task Force began its work, we certainly didn't expect our report on fiscal management would end with a focus on the issue of life-long learning. But the more we heard and the more we investigated, the clearer it became that education in its broadest sense is a critical lever in achieving our Vision. The numbers are compelling. While they show that 40–50 per cent of Nova Scotians can't read or write well enough to perform simple everyday tasks, they also show

clearly that the more education an individual has the more likely she or he is to be employed, the more likely the job they have will be well paying and rewarding, the more likely they will be contributing to the province's tax base, the more likely they are to be healthy and the less likely it is that they will need to make use of public health and social services.

By investing strategically in making sure every one of our citizens has the opportunity to achieve their educational potential, we will reduce health and welfare costs while increasing government revenues and improving the overall economy.

By committing ourselves to becoming a world leader in learning — a learning society — we will, almost by definition, be helping reach our other goals and achieve our Vision.

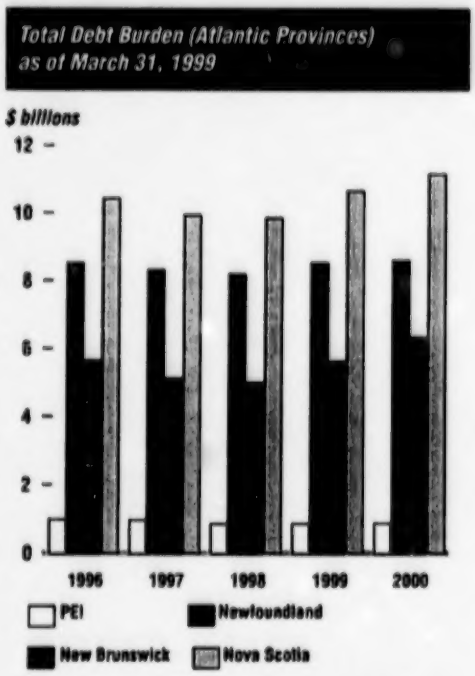
Introduction

The problem is deceptively simple.

We spend more each year than we take in.

The Government of Nova Scotia, in fact, has been spending more and taking in less each and every year since 1976. To make up the difference, our governments have borrowed more money each and every year for the past 23 years. But they never paid any of it back. Instead, they paid only the interest on the money they had previously borrowed, so the total debt — this year's shortfall on top of last year's deficit added to the previous year's overspending — just kept growing. And growing. And growing ...

>By the end of this fiscal year, in fact, Nova Scotians will collectively owe a grand total of about $11 billion; that's the equivalent of nearly $12,000 for every child, woman and man in the province. Two billion dollars worth of that debt, it's worth noting, has been added in just the last five years. If we don't do something about it now, our children's children will still be paying for debts that were run up in our parents' time. And, make no mistake, that debt continues to mount. By the end of this fiscal year alone, we'll have spent another $500 million more than we took in.



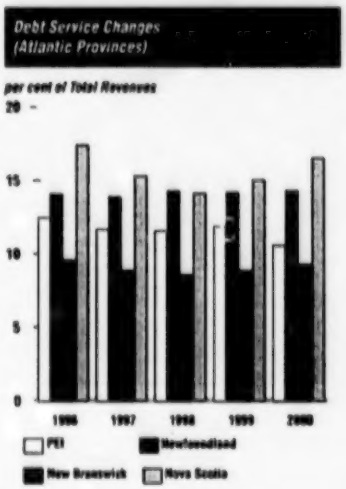
Why should that concern you?

Well, for starters, since we have to pay the interest on all that old debt out of the revenue the Government brings in during the current year, there's less new money available to spend on our current needs. In fact, our government now spends about 19¢ of every dollar it takes in just to pay the interest on our debt. That's roughly the same amount we spend on education and significantly more

than we spend on social services. In essense, it means we took in nearly one billion dollars last year that we couldn't choose to spend on ongoing programs or services, or use for tax relief, or even finally paying down the debt we've built up over the years. Continuing to borrow just to pay the interest on the money we already borrowed results in a never-ending cycle that only keeps dragging us deeper and deeper into debt and making it harder and harder to ever escape from under the crushing weight of that burden.

Our debt not only limits our fiscal flexibility but it also makes us more vulnerable to a whole range of economic fluctuations over which we have no control. It's estimated that 49 per cent of our debt is currently owed to foreign lenders, much of it in American dollars and much of it "unhedged." That means if the value of Canada's currency goes down relative to the U.S. dollar, our debt will instantly go up. How serious might that be? We've been told a one-cent increase in the value of the American dollar could increase our total debt by $30 million. Just like that. And we are vulnerable too to changes in interest rates.

As our debt becomes larger and the amount it takes to service it uses up more of our current revenues, those who lend us money — quite reasonably and understandably —become nervous about our ability to pay it back. They may eventually decide we're not such good credit risks any longer. In the worst case scenario, they might ultimately decide we're such bad risks that they don't want to lend us any more money.



And then where would we be?

We simply can't go on like this.

We need to get our economic house in order.

This isn't a partisan argument. You may be among those who believe government is too big and that we need to reduce its influence in our everyday lives. Your neighbour may believe an activist government is central to our social well being. Despite those very different philosophies and goals, this Task Force believes that the one thing you can both agree on is that we must be in control of our own financial future in order to achieve either of your goals. If we didn't have to pay out all that money each year in interest, governments would have the flexibility to choose to spend more on providing services for people, or to reduce taxes, or perhaps even both. We simply don't have those options at the moment.

That's why getting back control of our own financial future must be the province's number one priority — the necessary first step without which all other steps will be meaningless.

That is also why the premier asked Voluntary Planning to offer suggestions for balancing the budget and for establishing a framework for fiscal reform that the new Government could use to help it "redefine what government is and ... what it isn't."

The only organization of its kind in Canada, Voluntary Planning has been providing independent, non-partisan advice to successive Nova Scotia governments since 1963. Our Task Force represents a broad spectrum of views among our organization's 350 volunteers, who, in turn, represent more than 250 different community, business, industry and labour organizations.

Over the past two intense months, the Task Force has examined the province's current financial situation. We have looked at ways other governments in other

places — including Alberta, Manitoba, Ontario, New Brunswick and Ottawa — have come to terms with their deficit and debt problems. We have met with experts to hear their suggestions for more open and accountable systems for managing the spending of public money. And we have considered public submissions from 677 individuals and organizations in Nova Scotia who have offered us a broad range of thoughtful concerns and interesting suggestions for achieving the tasks the Government has set for us.

Not all their suggestions have ended up in this report, of course, and we don't have the space to list all of them here. But a quick sample will give you a flavour for the scope and creativeness of their thinking: from establishing business-tax free zones outside metro Halifax to providing students, doctors and patients with a full accounting of the real cost of their education or health care services; from setting up a 1-800-NS-IDEAS line to solicit cost-cutting advice to setting up a public "debt meter" as an ongoing visual reminder of our fiscal situation; from increasing corporate and personal taxes to decreasing corporate and personal taxes; from organizing a special lottery for debt reduction to increasing public support for sports, recreation and culture.

In addition to the specifics of what we learned from the ideas we heard from our fellow citizens, we also quickly came to understand just how seriously Nova Scotians take our fiscal problems and how eager they are to help solve them.

If describing our fiscal problem is simple enough, solving it — we have discovered — will be anything but. For starters, there is no one single solution that can magically and painlessly restore us to good fiscal health and well being. And the fixes, whatever they are, will not be quick either; this is, after all, a problem that has been almost 25 years in the making and will not be solved in a day, or a year, or even in the term of a provincial government.

We as Nova Scotians must fundamentally rethink what we expect of our government. In the short term certainly, we are also going to have to make many difficult and painful economic choices about what we can afford and what we can't.

Wait a minute, you may be saying to yourself. Haven't we been down this road before?

We have.

Sort of.

In 1993, the then-new Liberal government of Dr. John Savage similarly declared that the financial situation it had inherited from the previous Conservative government was a mess, and introduced a series of austerity measures — from unpaid holidays for public servants to cutbacks in government services — it believed would solve the problem. By the late 1990s, it seemed they had. The government was even able to introduce several budgets in a row it claimed were balanced.

Problem solved?

Well, not really.

The reality is that the Government's so-called balanced budgets were based on the false premise that the deficit it had eliminated represented the true state of the province's finances. It didn't. The government had been using an accounting policy that didn't take into account the annual losses from a whole range of what are also, in fact, public spending — including spending on regional hospital and school boards, Sydney Steel, Nova Scotia Resources Ltd., and so on.

Our real financial situation was, in truth, much worse than it seemed. And the

sacrifices we made at the time — while certainly necessary and important — are only the beginning of what we must now do to finally put our financial house in order.

To make matters worse, the fact that we didn't deal with the real situation at a time when most other governments were getting their financial houses in order means we must now come face to face with still-more daunting fiscal problems at a time when our fellow citizens in many other jurisdictions are considering what to do with their "fiscal dividend."

It would be easy to blame the previous administration for misleading us about the true state of our fiscal affairs. But the truth is there's more than enough blame to go around. We've been running up deficits and accumulating debt — and finding ways to avoid accurately accounting for it — for nearly 25 straight years through six different administrations representing two different political parties.

And we can't pretend we as taxpayers and voters don't at least share some responsibility for our current problems. As a society, we have traditionally expected a lot from our governments — without necessarily asking the important question about how all those things we wanted were going to be paid for. We continue to make demands on the public purse, even now. And, while we claim we don't want our governments to live beyond our means, we are quick to criticize them if they do try to eliminate or reduce our pet programs or services.

It is probably no coincidence that most governments that have attempted to implement cost-cutting measures in recent years have done virtually all of their cutting in the first few years of their mandates. After that, they tend to become more concerned about their own re-election prospects, and they begin to make promises they believe we want to hear, but which they know they shouldn't (and often know they can't) keep.

We as citizens have been part of creating this problem; we must also be part of the solution. As we do in our own daily lives, we must recognize that governments must live within their — which is to say our — means. We can't regard government resources as inexhaustible and we can't expect government to use those resources — which is to say, again, our collective resources — to solve every problem.

While there is no "best" time to deal with our financial crisis — and, truth be told, we no longer have the luxury of deciding for ourselves when to begin addressing the issue — it's worth noting that our economy is in the best shape it's been in this decade. As the Dominion Bond Rating Service put it in a recent report on the province: "Nova Scotia's economic fundamentals have improved in recent years with a more diversified economic base, low inflation and an unemployment rate that has been on a downward trend for the last five years. Nova Scotia's economy is expected to register growth of 3.4 per cent in 1999, buoyed by a number of major capital projects, and continued strong exports and tourism." All of that should help us weather the inevitable problems dealing with our deficit crisis will create.

In practical terms, the election of a new majority government also offers a small window of opportunity to make painful but necessary decisions that will allow us to begin to get back control of our finances.

But the opportunity for real and lasting change will be wasted if the new administration doesn't do much more than that. There is much, much more that needs to be done to make sure we will have a sustainable economy now and for the future. But realistically, governments are unlikely to make the long-term changes that need to be made unless they believe we as citizens understand — and accept — the need for them. We must give our politicians the courage of our convictions; we must make it clear that we are prepared to change our

expectations of government in the short term in order to ensure our economic future in the long term.

What must be the role of the Government in all of this?

For starters, the Government must establish clear, realistic and fair immediate, short-term and long-term targets:

- For balancing the books on an annual basis.
- For reducing and eliminating the accumulated debt over time.

If those targets are to be meaningful, of course, they must be combined with equally clear, realistic and fair methods to regularly and continuously monitor and measure their progress against those targets.

And, perhaps even more importantly for the longer term, government must put a permanent framework in place for continuing public consultation and accountability so this government — and whatever governments that follow — can stay on track in future.

The Hamm government has already taken what we believe is an important first step in this larger process by changing its financial reporting policy to more accurately reflect the real state of our public finances. We say that without intending to be partisan. The new system simply reflects what the accountants like to call "generally accepted accounting principles," meaning that the people whose job it is to assess such things believe it accurately represents the true costs of government. We can use those figures as an acceptable starting point for determining where we are now, and as a valid benchmark against which to measure our progress in future.

The Government has also already identified its primary short-term fiscal targets: eliminating the province's annual deficit.

While that helps us define the target, it won't make achieving it any easier. The prospect of moving from an annual deficit that will nudge $500 million by the end of this fiscal year to one that is balanced in just two years is, to say the least, a daunting one. Five hundred million dollars represent 16 per cent of the total the province will spend this year.

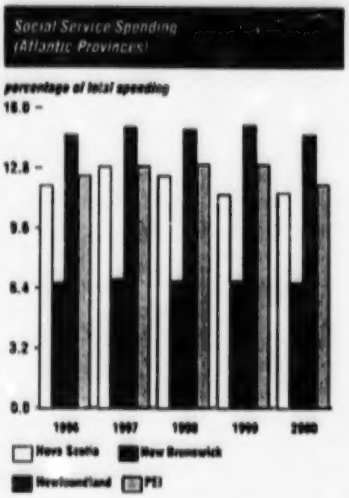
While there may be a few opportunities to increase revenues to help offset some of those expenses, it is clear that that shortfall is far too significant to be made up simply by increasing the amount of money the province takes in each year.

And our immediate options are limited as well by the fact that there are some expenses the provincial government must pay — the interest on the debt, for example, and our obligations under the Canada Health Act — that are beyond our immediate control.

What that means is that, if the Government is to achieve the short-term goal it has set, **the Government simply cannot continue to do everything it does now** and meet that target.

Our role as a task force was not to identify the specific cuts the Government should make to achieve its targets but rather to establish the framework so that those choices can be made rationally, fairly and effectively.

In order to develop that framework, we must reconsider the role our provincial government plays in our lives. What are the vital core functions our government must perform? What criteria should we use to decide what's essential, and what's not? Within that context, what can we realistically afford? How do we make sure that those functions we do deem essential — but beyond the means of government to provide under the current circumstances — continue to be provided effectively but efficiently by someone else? Finally, how do we make sure that those who will inevitably be displaced or dislocated during what will certainly be a difficult transition are not only treated fairly but also do not end up becoming an additional burden on the province's limited resources?



Answering those questions -- as important as they are — is, of course, only the beginning. Once we get our current financial crisis under control, we must deal with the question of how to make sure our economy is sustainable and is doing what government ought to be doing in the long term? How do we create the framework so government — and citizens — can continuously monitor and assess our province's fiscal performance?

In short, how do we shape Nova Scotia's future?

Solving the Short-Term Crisis

Introduction

When we talk about solving the short-term crisis, we are referring to what we need to do between now and the end of the next two fiscal years, not only to achieve a balanced budget but also to remake government into a smaller, better and more service-oriented operation as well as one that is more accountable to the taxpayer and more credible to everyone.

Before we get into the specifics of what that means and how to go about achieving it, it is important to point out that all of these short-term solutions must fit into the Government's long-term Vision. While we will explore the elements of that Vision in more detail in the next section, it's worth simply stating it at this point to indicate that all of our short-term goals are in keeping with our Vision:

- To control our own economy in order to enhance the opportunities and well-being of all our citizens.

Because our Vision involves more than simply cutting expenditures, the Task Force doesn't believe it makes sense for the Government to cut costs indiscriminately across the board, selecting some magic percentage reduction target in order to achieve the goal of balancing the books, instructing every government department to eliminate that percentage from its operating costs and damning the consequences. But neither does the Task Force believe it is possible to make the magnitude of cuts in the time frame we've set out and continue to provide all the services it now offers.

Choices must be made.

The problem is that, in the absence of a fair and efficient formula for determining which programs and services should have first call on limited public resources, how can governments make rational fiscal decisions?

In order to regain control of our fiscal situation, we first have to understand what the situation actually is. That isn't as easy as it sounds. Governments grow incrementally. A program is created to meet a need here. A service is offered in response to a demand there. Those programs and services develop lives of their own. Once established, they become difficult to eliminate, often even after the real need for them has disappeared. After a while, the Government is offering so many programs and services no one knows even how many there are, let alone which ones are still necessary, or doing the job they were intended to do.

RECOMMENDATION 1: The Government must adopt and implement a fiscal decision-making system that is rational, fair, efficient, credible, open and accountable.

The Fiscal Decision-Making System

The Government has already taken an important first step in laying the groundwork for this new approach to fiscal decision-making. Its Priorities and Planning Secretariat (P&P) is currently collecting the information necessary to provide a baseline inventory and initial categorization of every existing government program and activity. As a result of its work to date, P&P has identified significant potential savings. This is encouraging.

We believe creating the inventory is an important beginning. But it is only a beginning. The next step for the Government is to:

- put a framework in place to evaluate all of its programs;
- require all departments to go through a budgeting exercise to prioritize their programs and services;
- establish an inter-departmental implementation team to assess the results of the departmental evaluation process and budgeting exercise, prepare budget recommendations for cabinet and then make sure whatever cabinet decides is acted upon and implemented.

The Program Decision Process

RECOMMENDATION 2: The Government must adopt a Program Decision Process that will allow it to analyze systematically, fairly and quickly each of its activities to determine whether it:

- fulfills a core function of government;
- responds to one of the Government's key current strategies;
- provides good value for its cost.

What do we mean when we say a core function of government? If you think of government as the ship of state, you might say government has two main functions: steering (setting the public policy course), and rowing, (implementing those policies by delivering services).

Traditionally, governments were primarily in the business of steering. But over the past 30 years, as the role of government has expanded, more and more of its activities relate to the rowing function. Today in Nova Scotia, in fact, nearly 70 per cent of the annual provincial budget goes to delivering programs and services.

Given the current financial crisis, we simply can't afford to keep doing that any longer. That's not to say there isn't a vital role for government to provide some essential services itself, but the focus must shift back to government's role in steering of the ship of state.

The Task Force has identified the following as the core government functions:

- Policy and planning
- Strategic investment
- Legislative/regulatory
- Standards/measurements
- Quality control/audit
- Accountability/reporting
- Delivery of selected essential public services

The Task Force has also developed a step-by-step framework (see Appendix 5, Program Decision Process) government can use to analyze its programs and services as well as all its agencies, boards and commissions. This framework provides clear criteria to determine whether the program or service is a core function of government, as well as an assessment of the value of each program and the cost to deliver it.

By evaluating each program in light of the core functions and the framework, it will be possible to determine which programs should be considered for:

- Termination;
- alternate delivery;
- continuance with modification;
- continuance.

Under the framework, each program would also be designated high or low value depending on:

- its immediate, short-term and long-term impact on the health, security and welfare of Nova Scotians;
- whether it benefited a small segment of the population or Nova Scotians as a whole;
- its immediate, short-term and long-term impact on a community, an industry or on sustainable economic development.

The program would be designated high or low cost depending on:

- how much the program or service costs per capita in comparison with past costs, with costs in other jurisdictions, etc.;
- the consequences of not delivering it.

Measuring each program against these value and cost criteria would allow the program to be classified as:

- A = High value, low cost;
- B = High value, high cost;
- C = Low value, low cost;
- D = Low value, high cost,

Within these general classifications, departments could then rank each of their programs according to priority.

The process of evaluation

It won't be enough, of course, to simply analyze, categorize and prioritize government programs. Someone — or some group — has to take responsibility for making sure that the process is followed and that it leads to the appropriate decisions.

RECOMMENDATION 3: The Government should establish a small inter-departmental implementation team to coordinate the accomplishment of its deficit elimination strategy.

This implementation team would consist of the Deputy Minister of Priorities and Planning, the Deputy Minister of Finance and two other senior Deputy Ministers, plus staff seconded as needed. The Deputy Minister of any department whose programs were being reviewed by the team would also participate in its deliberations.

The role of the implementation team would be to:

- Oversee the initial screening of all programs using the Program Decision Process.
- Coordinate the departmental budgeting exercise (see below).
- Prepare overall budget recommendations for cabinet based on the results of the Program Decision Process reviews and budgeting exercise, as well as its own analysis and deliberations.
- Monitor and ensure departmental compliance with the budgets approved by cabinet.

The implementation team, a short-term group, would report directly to cabinet and would be disbanded after the government achieves its balanced budget. Cabinet, of course, would continue to be ultimately responsible for making sure that its fiscal objectives are achieved.

The budgeting exercise

RECOMMENDATION 4: After the implementation team classifies all programs using the Program Decision Process and reports its findings to the department, each department would go through the following budgeting exercises:

- Prepare a business plan for the next fiscal year based on the assumption it will have 15 per cent fewer funds to work with;
- Prepare a business plan for the next fiscal year based on the assumption it will have 30 per cent fewer funds to work with.

It is important to make the point here that this is an exercise, not an actual budget. Its goal is to clarify departmental service priorities, and assist those who will make budget decisions for the Government as a whole.

While this is an exercise, however, it is anything but a frivolous one. We know the Government must cut approximately 15 per cent of its current operating budget over the next two years if it is to balance its books by 2001-02. We have chosen 15 and 30 per cent as the reduction targets for this exercise in order to give the decision-makers a range of choices as they prepare the Government's overall budget. It doesn't mean departments will be arbitrarily cut by 15 or 30 per cent. Based on the results from other jurisdictions that have gone through similar exercises, we would expect that some departments may find their budgets reduced by considerably less than those figures or even increased; other departments may be eliminated entirely.

Restructuring Government

The measures outlined above are intended as an immediate response to the current crisis. We must get our economic house in order and quickly in order to balance the books by 2001-02.

But there are other measures the Government can take in the short term that will not only help it achieve its immediate fiscal objectives but will also put in place structures to produce smaller, more effective and more service-oriented government for the long term.

> **RECOMMENDATION 5: Government must revise its organizational structure to ensure there are as few layers of bureaucracy as possible between the deputy minister and the person receiving any government program or service.**

The ministry concept

In our research, we discovered that a number of jurisdictions, including Alberta, have fundamentally restructured and streamlined the organization of their governments by combining similar-themed departments, programs, services, boards, commissions and agencies under a single ministry.

Within the umbrella of a health ministry, for example, one might find not only the programs and services currently provided by the Health Department but also some of the mental health services now under the auspices of Community Services or healthy lifestyles education programs offered by the Department of Education.

Such a restructuring would not only make government more logical but also more efficient.

> **RECOMMENDATION 6: Government should adopt a ministry approach in restructuring its operations.**

Standing committees

Traditionally, governments were organized vertically within departments, or even ministries. Those who work in tem sometimes confused their own bureaucratic interests with the interest of the Government as a whole and with the public interest. The result was that the parts became more important than the whole. But if the "whole" is the government's overall agenda, then it is clear this tendency to territoriality is counter-productive and must be broken down.

Other governments such as Alberta employ inter-ministerial standing committees — focusing on such broad concerns as human resources, information technology, infrastructure and marketing — to bring together officials from different ministries to achieve common goals as well as encourage them to put the work of the Government ahead of the interests of their particular ministry or group.

> **RECOMMENDATION 7: Government should establish inter-ministerial standing committees as a way to reduce territoriality and encourage the achievement of overall Government goals. These standing committees will be responsible to the cabinet.**

The role of the cabinet

One of the cabinet's key roles is to be responsible for the provincial budget. But this is a policy and oversight responsibility, not a day-to-day micro-management role. Cabinet must set the budget, accept its bottom line as "sacred," let its managers manage it and then hold them accountable for the results. Nova Scotia needs to implement a strong cabinet committee system to deal with the everyday housekeeping details and allow the Cabinet to focus on the broader issues.

That's not suggest there won't be the need from time to time for Cabinet to make changes within the overall budget to enable government to launch a new initiative or respond to an urgent need. But in order to safeguard the integrity of the budget process, it's essential that the Cabinet must then find corresponding ways to reduce or eliminate other programs to keep the overall budget in balance. The budget, we say again, must be a sacred document.

Traditionally, cabinets, under pressure to make decisions, have also often failed to consider — or even have the information available to consider — the impact on the province's finances when they approve requests for funding. This must not be allowed to continue.

> **RECOMMENDATION 8: The cabinet must adopt new tools to help it keep track of expenditures and the impact of its decisions on the current and future provincial budgets. As part of the process of accountability, it should also immediately disclose any decisions it makes that will have an impact on the budget. This disclosure should include information on estimated costs of any decisions.**

Other Issues

The Government did not ask us to — and we did not — attempt to identify specific programs or services that should be eliminated. We leave that to those who know better the details of individual programs and services. We believe the process and framework described above will assist them in that difficult task.

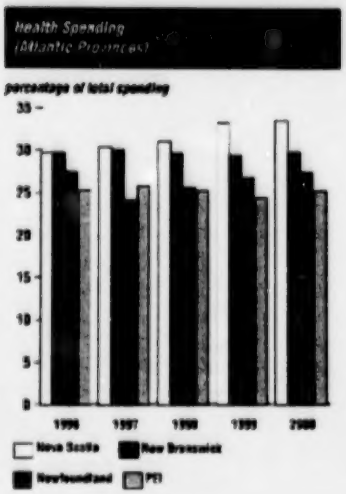
Our terms of reference, however, did invite us to make recommendations and observations to the Government "on any other matters the Task Force may deem necessary as a result of information coming to its attention during the course of the review."

There were many of them.

Reducing expenses

Government must consider all possible options for reducing the deficit, including various ways to reduce its expenses. These include:

- **Health care spending;** This is, of course, the single most expensive service government provides. But the figures show health care spending per capita is greater in Nova Scotia than in other provinces and that, worse, health care spending generally is continuing to rise. It currently represents 35 per cent of all government spending and, if it continues to escalate at current rates, health care alone could consume every dollar the government raises. Clearly, this cannot be allowed to continue. While some of these expenses are mandated under the Canada Health Act, we believe the Government must not only find a way to cap health care expenses but it must also actually come up with ways to significantly reduce them if it is to achieve its goal of a balanced budget in two years. We can't continue to tell hospital administrations to cut costs but maintain services; we must give them a realistic budget and demand that they make the necessary decisions to meet their budgets. We must look at ways to reduce the costs of administering the health care system, at alternative ways of delivering health care such as home care, at increasing investment in efforts to improve lifestyles to reduces medical expenses and so on. And we need to let Nova Scotians — both patients and care-givers — know precisely how much their various services, tests and treatments cost taxpayers.



- **Grants, loans and forgivable loans:** Given our current financial crisis, the Government must reconsider its policies for making grants and forgivable loans to business. While there may be valid economic development reasons for governments to provide such financial assistance, we believe they should be used only in exceptional circumstances and that there should be full public disclosure in each case. We also believe the process by which the Government grants and manages all loans should be more businesslike as well as open and accountable.

- **Agencies, boards and commissions:** Nova Scotia has over 300 provincially appointed agencies, boards and commissions — from the Apple Maggot Review Board to the Youth Advisory Council, from the Children and Family Services Act Advisory Board to the Board of Registration for Embalmers and Funeral Directors. While many of these groups undoubtedly do useful and important work, there are simply far too many of them for a province of our size. When the task force looked at the situation in other provinces, we found that even much larger provinces than ours had far fewer such groups. Worse, there appears to have been little consistency in whether or how much appointees are remunerated and in the public accountability of each of these entities.

  RECOMMENDATION 9: The Government should require all agencies, boards and commissions to undergo the same sort of program review process as other government programs with a view to dramatically reducing their numbers.

- **Hedging:** The size of our debt, of course, is a major concern. But so is the nature of that debt. The fact that so much of it — 49 per cent — is not only owed to foreign lenders but also that so much of that total — 45 per cent — is unhedged and therefore subject to the vagaries of international currency fluctuations is cause for serious alarm.

RECOMMENDATION 10: The Government must set as its goal to hedge 100 per cent of its foreign debt. It should report regularly on its success in reaching that goal.

- **Reconsidering the fiscal union:** As the Task Force examined the province's fiscal problems, we were struck by the extent to which provincial spending is mandated by, or tied to, federal legislation, and the extent to which Ottawa in recent years has reduced the amount it contributes to funding such programs. This is not just Nova Scotia's problem. We believe it is past time for a full public debate on the future of Canada's fiscal union.

Raising revenues

While the task force doesn't believe the Government can — or should — attempt to solve our very daunting fiscal crisis only by raising revenues, we do believe it is incumbent upon Government to consider all possible options for reducing the deficit, including ways to increase revenues. These include:

- **Fixed Capital Asset sales:** Many submissions the task force received suggested selling off certain public assets to reduce the debt. The assets named included Sydney Steel, Nova Scotia Resources Limited, the Nova Scotia Liquor Commission and the provincially-owned resort hotels, among others. Selling some assets, such as Sydney Steel — which the provincial government has already announced it plans to do — will have a positive impact on the government's annual operating budget by eliminating its annual deficits from those calculations. While the task force believes selling some assets may be both necessary and desirable, we think it is important to raise a number of cautions:

  RECOMMENDATION 11: The Government must undertake a thorough cost-benefit analysis of any proposed fixed capital asset sale to ensure the sale will be in the long-term best interests of taxpayers.

  RECOMMENDATION 12: The Government must not apply any one-time revenue it receives from the sale of fixed physical assets to its operating budget. "Windfall" income — also including one-time federal grants or other transfers — should be used only to pay down the debt.

- **User pay:** The task force opposes the introduction of means tests for essential services. But we do believe that, in areas other than health care, there may be instances where those who benefit from a particular government program or service — a new highway, for example, or a service to business — should contribute to the cost of providing it through tolls or other fees.

- **Taxes:** While we do not generally favour increasing the overall tax burden as a means of reducing the deficit, the Task Force believes there may be both social and economic benefits from strategic increases in taxes on such products as cigarettes and alcohol. We have been told that, assuming do decline in consumption, the province could raise more than $150 million by increasing the tax on a pack of cigarettes, a bottle of liquor and a six-pack of beer by one dollar. Such an increase may also have the equally positive long-term benefit of discouraging smoking, encouraging a healthier lifestyle and reducing associated health care costs over time.

  RECOMMENDATION 13: Government should explore the possibility of imposing an additional one-dollar-per-package provincial surtax on cigarettes and a one-dollar-per-bottle surtax on spirits and a

one-dollar-per-six-pack surtax on beer.

Human resources issues

The Task Force acknowledges that achieving the spending reduction targets the Government has set will inevitably result in some dislocation and hardship. But we believe there are ways in which the Government can achieve at least part of its overall objective with minimal — or at least reduced — human cost.

RECOMMENDATION 14: We recommend the Government work with its employee unions and non-union employees in order to find innovative ways to achieve its goals while minimizing the impact of these cuts on the lives of individual public servants and their families.

- **Attrition:** If the Government declared an immediate freeze on all new hiring and implemented a policy of not directly replacing those who retire or leave the public service, including teachers, professors and health care workers, we estimate the savings would be in the order of $150 million per year based on the recent annual attrition rate in the civil service.

- **Unpaid leave:** An alternative to widespread layoffs or permanent staff reductions, unpaid leave has been used to cut costs in a number of jurisdictions, including previously in Nova Scotia. Essentially employees are required — or volunteer — to take so many unpaid leave days each year, traditionally during the summer or in the week between Christmas and New Year's. Assuming 10 unpaid days per year, the Task Force estimates this could save the Government save $120 million annually. This is an issue that should be negotiated between the government and public sector unions.

While we see both of these initiatives as worth considering, we aren't suggesting that there won't be cases in which essential personnel will not need to be replaced. Nor are we suggesting Government should preclude offering reasonable financial incentives to attract and keep key personnel.

Having said that, it's also important to make the point here that public servants won't willingly accept unpaid leave or other deficit-cutting measures that affect them individually unless they are convinced such measures are not only necessary but also that others are "sharing the pain."

What that means, quite simply, is that whatever cost-cutting measures Government imposes on public servants — including unpaid leaves — should apply equally to members of the legislature and cabinet ministers as well.

Political leadership

Beyond that, politicians must lead by example. If the Government is truly committed to reviewing every program, service, board, commission and agency to make sure each is advancing the core functions of government and providing the best value at the lowest cost, it must be just as willing to put its own perquisites under the microscope too. Is the current MLAs' pension plan too generous in light of our current economic situation? Should former MLAs be required to wait until they turn 55 to begin collecting their pensions? Should the Government continue to provide leased cars for the use of cabinet ministers?

Given Nova Scotia's long tradition of patronage and pork barrel politics, the Government must clearly demonstrate its own good faith if it is to convince public servants and the public to join it in the war against the deficit and the debt.

And Nova Scotian politicians have credibility fence-mending to do beyond our borders as well.

In talking with representatives of other governments and lending agencies, the impression the Task Force got is that Nova Scotia's politicians do not have a good reputation for living up to their fiscal commitments.

That must change.

It will only change if this Government, having publicly dedicated itself to achieving a balanced budget within two years and eliminating the debt in 20 years, makes good on those promises. Not just in the next budget. Or even the budget after that. We must continue to work toward that goal until it is achieved, regardless of which political party is in power.

Solving the long-term problems

Introduction

In the past, when governments talked about "long-term planning," they weren't usually thinking much beyond the last year of their current electoral mandates. While that kind of short-term/long-term planning may have seemed politically rational at the time, we now know it was fiscally irrational — and dangerous to the economic well-being of all of us. In fact, we're in the economic mess we're in today largely because, budget after budget, year after year, government after government, decade after decade, our leaders failed, or refused, to look very far beyond the next election.

Implementing the immediate and short-term recommendations outlined in the previous section are important and necessary in order to regain control over our economic present. But if the short-term pain we are prescribing is to produce the long-term fiscal health we all want for Nova Scotia, the Government must go well beyond simply balancing its books — or even announcing a tax cut — in time for the next election.

Shaping Nova Scotia's Future means not just eliminating the annual deficits and generating surplus budgets but also paying down the accumulated debt as well. That's a long-term goal that can't realistically be accomplished within the term of any one administration. Transforming our province from a dependent within the Canadian federation to an independent, self-sustaining economic contributor to Canada and the world — a no less important aspect of our economic and social Vision — is also a long-term one.

The Task Force believes most Nova Scotians, regardless of their individual political beliefs, will agree that eliminating the debt and becoming a HAVE province are not only legitimate but also laudable public policy goals. But how do we make sure our politicians keep those generally accepted long-term goals in mind even as they have to deal with the day-to-day demands of governing and their not unreasonable desire to win re-election?

The Task Force believes much of the answer lies in developing a **legislated** framework for planning, budgeting, openness and accountability that — while allowing governments of different political stripes the flexibility to set their own strategies — will provide the public with the tools to measure their real progress in achieving our common goals.

Real change will not only require changes in legislation, of course, but also a change in thinking — and not just from our politicians. We as citizens must face up to the fact that public resources are not infinite, and that we must understand what our means really are and resolve to live within them.

A Vision, goals and action plans

The process of taking control of our economic destiny begins with clearly identifying a Vision we can all agree on for the economic future of our province. With that Vision in mind, we can then define a limited number of specific, measurable goals we will achieve to get us to that Vision, and action plans to enable us to reach those goals. Finally, we need to put in place a legislated, open and accountable process so citizens can assess the Government's actual performance in relation to its action plans, its goals and the Vision.

RECOMMENDATION 15: Our Vision for Nova Scotia should be: To control our own economy in order to enhance the opportunities and well-being of all our citizens.

RECOMMENDATION 16: The Government should define the following specific goals to achieve that vision:

- **Eliminate the debt in 20 years.**
- **Become a HAVE province in 10 years.**
- **Become a world leader in learning in 10 to 20 years.**
- **Significantly improve our role in world trading in 20 years.**

What measures are needed now to ensure we will be a HAVE province in 10 years? What do we need to do today to make sure we have eliminated the debt in 20 years? Become a world leader in learning? A trading partner to the world?

If we are to achieve those goals, the Government must move beyond the traditional annual cycle of budgeting and spending, and develop — and implement — an overall economic strategy that include multi-year, next-year and annual action plans.

There is nothing new about the notion that Nova Scotia should have an economic strategy. In 1991, Voluntary Planning, at the request of the then-Government of Nova Scotia developed an economic development strategy for the nineties. While much of the groundwork exists, we clearly need a new economic strategy now for the 21st century.

Why do we need such a strategy. During its research, for example, the Task Force learned that the province's IT industry has set a goal of significantly increasing the value of technology exports to $1.5 billion annually. Achieving that will mean 6,000 jobs paying salaries of $360 million each year and generating $60 million in new revenue for the province. Such growth does not happen in a vacuum. Given that the core functions of Government include establishing policy and planning as well as strategic investment, the Government can and should move quickly to outline an economic strategy that will not only help us achieve our goals but provide a context for preparing action plans and budgets.

Multi-year plans — the Task Force suggests a continuous three year horizon — would help departments and agencies keep the focus on outcomes — where they want to be in three years, as well as in 10 or 20 years — even as they deal with the inputs — the day-to-day and next-year demands.

Such an approach will only work, of course, if it is accompanied by a process of open public consultation, continuous assessment and regular accountability. Governments must measure — and provide the public with the information it needs to measure — how well it is doing.

Nova Scotians should be proud of the work already done through such projects

as "Nova Scotia Counts" in developing outcome measurements that provide analytical snapshots of where we are — and where we want to be — on a broad range of social, economic, fiscal and accountability issues. We believe the Government should continue to develop and improve the collection of these broad societal performance indicators so citizens will have access to the information they need to understand and help shape future public policy.

This process of measurement and accountability must take place on a continuing basis, of course, but also at fixed intervals in order to provide major checkpoints to compare progress to date with the overall goals.

RECOMMENDATION 17: The Government should develop a new economic strategy for Nova Scotia.

RECOMMENDATION 18: The Government should develop and publish multi-year, next-year and annual fiscal action plans as well as annual reports detailing its successes and failures in completing its action plans.

RECOMMENDATION 19: The Government should introduce legislation to require public, five-year progress reports measuring its success in achieving its goals.

The budget process

Traditionally, governments developed their budgets in secret, presenting them to the legislature and the public only as finished, take-it-or-leave-it documents. But budgeting, especially in today's complex, inter-related world, is far too important to be left to the politicians and the bureaucrats alone. And it is too important to be left to the last minute either. While there have been some tentative, ad hoc attempts in recent years to open up the pre-budget consultation process, the Task Force believes the issue of timely, wide-ranging pre-budget consultation is so important it should be mandated by legislation.

We think it is equally important for Government to keep the requirement that it maintain a balanced budget enshrined in legislation. While we recognize — and know from recent experience — that passing such legislation does not guarantee Governments won't find ways to circumvent it, we think legislation will serve not only as a useful deterrent to the temptations governments face but also another accountability tool the public can use to assess the performance of a government.

RECOMMENDATION 20: The Government should bring forward legislation to provide for meaningful and timely public consultation in the preparation of its annual budget. This means the budget process for the coming fiscal year must begin earlier in the previous fiscal year.

Openness and acountability

Nova Scotians have a right to expect the Government will be open with important information about its operations, and accountable for the decisions it makes.

And not just when it comes to budgets.

If Nova Scotians are going to understand the extent of our fiscal dilemma, they need to know more of the true costs of some of the publicly funded services they now receive. For example, patients and care providers should be provided with a

written accounting of the costs of all tests and medical services they receive or order. And students should know the amount of public funding that supports their education. Such accountings would be a forceful reminder that there are no "free" services, and that we all need to make the most efficient and effective use of scarce public resources.

Nova Scotians should know too the true extent of our indebtedness, and its direct impact on them. In New York City, there is a National Debt Clock that provides a visual reminder not only of the up-to-the-minute U.S. national debt but a display that show's "your family's portion is ..." While we're not suggesting we should necessarily do the same, Nova Scotians do need to be reminded regularly of the serious financial situation we face.

While citizens need to know more about our deficit and debt, they also need to know what government has done about it, what it is doing and what it plans to do. Government must become more accountable.

The Government — including all of its departments, agencies, boards and commissions — should produce clear and understandable annual reports documenting their activities and their progress during the previous year in meeting the government's overall goals and Vision. Such reports should not only document what has been accomplished but also identify any significant problems it encountered, as well as lay out clear action plans and spending estimates for the next year as well as the next several years.

The Task Force does not believe it is good enough to depend on the goodwill of the Government of the day to ensure that this happens. We believe this planning and accountability framework must be enshrined in legislation.

Once such a framework is legislated and established, we believe it will help develop the critically important organizational culture of continuous improvement within government that will enable government to become more efficient, effective, service-oriented and productive.

> **RECOMMENDATION 21: The Government should introduce legislation requiring every department, agency, board and commission to publish clear and understandable annual reports documenting their past activities and future plans.**

Lifelong learning

> "Finally, the light bulb has gone on: in a tough, global marketplace, knowledge is the capital on which both companies and countries compete."
>
> — Maclean's Magazine

>The numbers are clear and the story they tell is compelling. The more education a person has the better her or his chances of getting a job. In Nova Scotia in 1998 — when the average unemployment rate was 11 per cent — the unemployment rate for those without a high school diploma was closer to 18 per cent. As the education level went up, the unemployment level went down. The unemployment rate for those with a post secondary diploma or certificate was nine per cent, half the rate for those without high school. For university grads, the news was even better — an unemployment rate of just five per cent.

Let's look at the importance of education in another way. Between 1990 and 1998, the Nova Scotia economy generated 49,000 new jobs for those with some post-secondary education. In the same period, 36,000 jobs that had been filled by people with high school or less, disappeared.

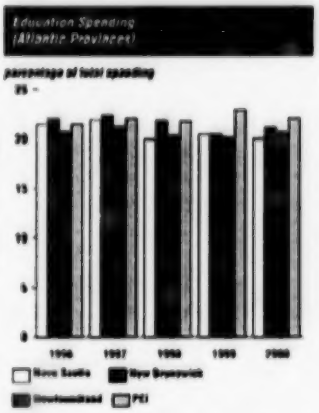
And the more education people have the more money they earn. By the time they reach their peak-earning middle years, those with a university degree average more than $55,000 per year while those without a high school education earn $20,000 a year less. Those with doctoral degrees earn more than twice as much as the average high school drop out.

The more a person earns, of course, the more he or she generally will contribute in taxes to the provincial revenues. One example we looked at showed how a person who was currently a net recipient of government services could be transformed into a lifetime net contributor of $334,000 in government revenues, thanks to a one-time investment in education.

If you flip the telescope and look at it from the other end, you get just as stark a picture. Ninety-two per cent of those who receive social assistance payments in Nova Scotia have a Grade 12 education or less. The lower the education the more likely a person is to become involved in criminal activity. And the statistics even show a direct correlation between income levels and good general health. That means higher the education level the lower the demand for health and social services.

The conclusion is inescapable: investing in learning at every level is the single smartest thing we can do to improve our overall economic situation.

But that isn't what we've been doing. Despite the obvious need to invest in education, government policy over the past decade has been to dramatically reduce spending on learning, especially on post-secondary education. Nova Scotia ranks dead last in the amount it contributes per capita to community college education, and dead last again in the country in terms of both the total amount its government provides to universities relative to its Gross Domestic Product and on a per-student basis. When it comes to investing in research — another key element of learning — Nova Scotia falls well below the national average again, 41 per cent below, in fact.



The results speak for themselves. Between 40 and 50 per cent of Nova Scotians are functionally illiterate, which means they have problems with everyday reading and writing. More than 30 per cent of our citizens have less than high school certification compared with the national average of just over 25 per cent. Fifty-five per cent of Nova Scotians earn less than $20,000 a year, and most aren't qualified to get higher-paying positions.

The Task Force did not set out to focus on education. But the more we learned the more we came to realize just how vital education in the broadest sense will be to achieving all the elements of our Vision, that is controlling our own economy **in order to enhance the opportunities and well-being of all our citizens.**

RECOMMENDATION 22: The Government should make lifelong learning a priority lever for both economic and social development.

What is lifelong learning? Perhaps it will help to start by saying what it's not. It's not simply the formal education system, and it doesn't limit itself to the traditional view of education as something only schools and teachers, or universities and professors provide. Lifelong learning encompasses everything from family and life skills education to literacy and numeracy training, from community colleges to community development, from pre-natal courses to post-graduate studies and

... well, anything that has to do with learning.

The goal is to create a learning culture, a commitment to provide the resources and the tools to enable every individual to reach her or his full potential over the course of their lifetime through continuous learning.

The idea isn't new. It's been the subject of discussions at the international level for 30 years. Some European countries have adopted lifelong learning as a social and economic priority, with positive results. Finland, for example, tops the world in the number of megabytes per capita and the number of high school graduates per capita, two outcome measures that indicate a commitment to lifelong learning. Finland also — and not coincidentally — boasts one of the highest standards of living in the world.

Despite that, the notion of lifelong learning still hasn't caught on in much of the world. It is, admittedly, a difficult concept not so much to grasp as to implement. And it requires a willingness on the part of the people who currently deliver learning programs and services to put aside their turf wars to work toward a larger social good.

We think Nova Scotia would make an ideal incubator and laboratory to demonstrate the real benefits of lifelong learning.

For starters — despite the recent cutbacks — this province has a reputation for excellence in its educational institutions. Much of the physical and intellectual infrastructure we need is already in place.

And, since we are currently in the process of rethinking how government should operate, this would seem to be the ideal time to introduce such an innovative idea. Lifelong learning could very easily become the focus for a standing committee that would cut across the ministerial and bureaucratic lines and deliver on the social and economic promise lifelong learning offers.

If we can — and we can — develop the necessary tools to measure the true impact of a commitment to lifelong learning on a range of economic and social indicators, and then measure our improvements as we implement this initiative, we believe the federal government may be interested in partnering with us in this commitment. In the recent Throne Speech, in fact, Ottawa expressed a desire to "forge partnerships with other governments, public and private sector organizations ... to establish a national action plan on skills and learning in the 21st century." The plan, the speech said, "will focus on lifelong learning."

Just as importantly, we believe accepting the challenge of developing a true learning society — and making it a reality — will truly make Nova Scotia a world leader in learning, a reputation that cannot help but attract investment and development in the knowledge age that the new century promises to become.

In the public submissions to the Task Force, we heard repeated concerns about the current state of education in the province. In fact, there were many more individuals making submissions about education than there were about health care.

That's not to suggest there is a sudden groundswell of public support to broaden and strengthen Nova Scotia's role as a learning society. In part, we believe that's because the concept requires us to rethink many of our assumptions about what learning really is and, in part, because the incredible impact learning has on every other aspect of our social and economic well being is still not clearly understood.

It's probably fair to say that Nova Scotia will not become a learning society without strong leadership and commitment from the top. We believe that commitment should be there.

But wait a minute. What happened to all our talk in earlier sections of this report about the need for cutbacks, and short-term pain, and scaling back our demands on government?

We haven't changed our mind about any of that. We must make sacrifices to get our economic house in order and, generally, we don't think it makes sense in these difficult times for governments to launch new initiatives. And we certainly don't mean to exempt the Department of Education from the same budget-cutting exercise as other departments.

But we also believe there are areas where strategic investment for the future makes good social and economic sense. And lifelong learning is one of those areas. There is, as we pointed out earlier, no single lever with more potential to improve our economy and society and, ultimately, reduce social and health costs than learning.

That doesn't mean we think the Government has to create some new super-bureaucracy — a Ministry of Lifelong Learning — or spend millions of dollars we don't have to create a new learning infrastructure. While there will undoubtedly be the need for some carefully targeted investment, especially in the area of post-secondary education and research programs, much of what is needed already exists. It is a matter of coordinating and harnessing it. And, of course, providing leadership.

Much of what we envision can be achieved with little or no cost:

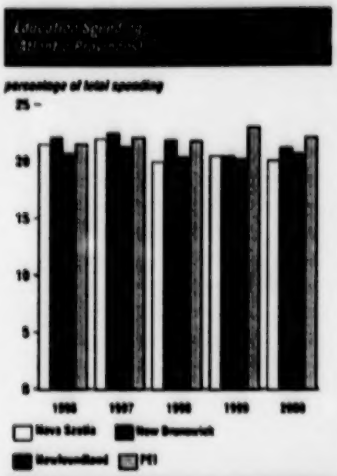
- Turning schools that now sit idle for more hours than they are in use turned into lifelong learning centres.
- Tapping the potential volunteers, including "gray power" to deliver basic literacy training across the province.
- Offering skills for living courses to improve the ability of even those with limited literacy and numeracy skills to function more effectively in society.
- Partnering with businesses to provide practical training programs.

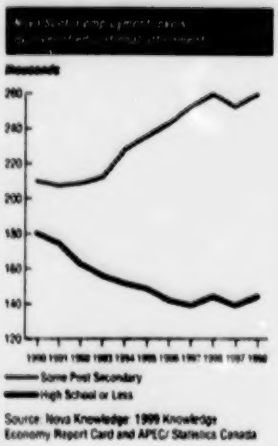
That is, of course, just a sampling of the many ways in which we can begin to tap the potential for lifelong learning.

As we noted earlier, this is not where we expected to end when we began the process of looking at how Nova Scotia could regain and maintain control of its economic destiny.

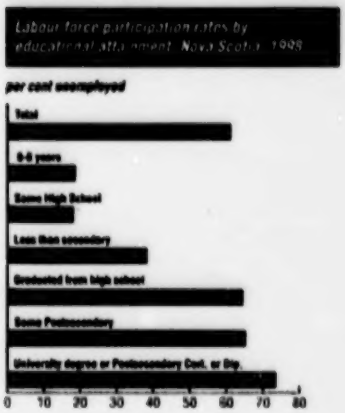
But we have become convinced as we studied, learned and listened that a commitment to lifelong learning must be a key part of the solution. Certainly, we can't wait for the benefits of a lifelong learning strategy to solve our current economic crisis. We must act, and act now, to bring our expenses into line with our revenues. And we can't expect that lifelong learning will eliminate the need for the legislated, open fiscal planning and accountability framework to keep government on the right course. But we also can't lose sight of the fact the best way to ensure the economic and social future we want for ourselves and our children will be to develop a true learning society.

It's all about Shaping Nova Scotia's Future.





Source: Nova Knowledge: 1999 Knowledge Economy Report Card and APEC/ Statistics Canada



Source: Statistics Canada

Conclusion

This is a preliminary report, based on a short but intense process of research, consultation and consideration. Its purpose is to lay out our tentative conclusions, and spark additional discussion and debate about the difficulties we face and the solutions we propose.

In early January, Task Force members will travel throughout the province to hold community consultation meetings at which we hope to hear reactions and more suggestions from Nova Scotians.

Following that process, the Task Force will meet once again to consider what we have heard, to determine whether — and what — we need to change from this preliminary report before we present our final document to the Government and to Nova Scotians.

We expect to present our final report before the end of January 2000.

Appendices

Appendix 1

Recommendations

1. The Government must adopt and implement a fiscal decision-making system that is rational, fair, efficient, credible, open and accountable.

2. The Government must adopt a Program Decision Process that will allow it to analyze systematically, fairly and quickly each of its activities to determine whether it:

- **fulfills a core function of government;**
- **responds to one of the Government's key current strategies;**
- **provides good value for its cost.**

3. The Government should establish a small inter-departmental implementation team to coordinate the accomplishment of its deficit elimination strategy.

4. After the implementation team classifies all programs using the Program Decision Process and reports its findings to the department, each department would go through the following budgeting exercises:

- **Prepare a business plan for the next fiscal year based on the assumption it will have 15 per cent fewer funds to work with;**
- **Prepare a business plan for the next fiscal year based on the assumption it will have 30 per cent fewer funds to work with.**

5. Government must revise its organizational structure to ensure there are as few layers of bureaucracy as possible between the deputy minister and the person receiving any government program or service.

6. Government should adopt a ministry approach in restructuring its operations.

7. Government should establish inter-ministerial standing committees as a way to reduce territoriality and encourage the achievement of overall Government goals. These standing committees will be responsible to the cabinet.

8. The cabinet must adopt new tools to help it keep track of expenditures and the impact of its decisions on the provincial budget. As part of the process of accountability, it should also immediately disclose any decisions it makes that will have an impact on the budget. This disclosure should include information on estimated costs of any decisions.

9. The Government should require all agencies, boards and commissions to undergo the same sort of program review process as other government programs with a view to dramatically reducing their numbers.

10. The Government must set as its goal to hedge 100 per cent of its foreign debt. It should report regularly on its success in reaching that goal.

11. The Government must undertake a thorough cost-benefit analysis of any proposed fixed capital asset sale to ensure the sale will be in the long-term best interests of taxpayers.

12. The Government must not apply any one-time revenue it receives from the sale of fixed physical assets to its operating budget. "Windfall" income — also including one-time federal grants or other transfers — should be used only to pay down the debt.

13. Government should explore the possibility of imposing an additional one-dollar-per-package provincial surtax on cigarettes and a one-dollar-per-bottle surtax on spirits and a one-dollar-per-six-pack surtax on beer.

14. We recommend the Government work with its employee unions and non-union employees in order to find innovative ways to achieve its goals while minimizing the impact of these cuts on the lives of individual public servants and their families.

15. Our Vision for Nova Scotia should be: To control our own economy in order to enhance the opportunities and well-being of all our citizens.

16. The Government should define the following specific goals to achieve that vision:

- **Eliminate the debt in 20 years.**
- **Become a HAVE province in 10 years.**
- **Become a world leader in learning in 10 to 20 years.**
- **Become a trading partner to the world in 20 years.**

17. The Government should develop a new economic strategy for Nova Scotia.

18. The Government should develop and publish multi-year, next-year and annual fiscal action plans as well as annual reports detailing its successes and failures in completing its action plans.

19. The Government should introduce legislation to require public, five-year progress reports measuring its success in achieving its goals.

20. The Government should bring forward legislation to provide for meaningful and timely public consultation in the preparation of its annual budget. This means the budget process for the coming fiscal year must begin earlier in the previous fiscal year.

21. The Government should introduce legislation requiring every department, agency, board and commission to publish clear and understandable annual reports documenting their past activities and future plans.

22. The Government should make lifelong learning a priority lever for both economic and social development.

Appendix 2

Voluntary Planning Task Force

Strategy for Fiscal Management

Terms of Reference

Introduction

The Province of Nova Scotia must live within its means; achieve balanced budgets and be open and accountable to Nova Scotians for the management of their finances.

A Fiscal Management Strategy is required to meet the fiscal demands and to strengthen the economy.

The Strategy would provide the Nova Scotia government with a framework under which the economy could grow and Nova Scotia is better able to afford needed health, education and social services.

Mandate

Voluntary Planning has been commissioned to:

- undertake a review of the financial position of the Province of Nova Scotia, including its Crown corporations, agencies, boards and commissions;
- submit s to ensure fiscal openness and accountability, to improve government financial management, and to eliminate deficit financing;
- establish a framework or set of guidelines which will allow for the immediate review of all government programs, including its Crown corporations, agencies, boards and commissions with a view to eliminating those programs that cannot be justified on the basis of necessity, cost and efficiency;
- recommend on any other matters the Task Force may deem necessary as a result of information coming to its attention during the course of the review.

Composition

A special task force will be established by Voluntary Planning. It shall operate independently of government.

The Provincial Auditor General will be asked to serve as a special advisor to the Task Force.

Process

The Task Force will:

- study the Government's internal files and documents, and may speak to individuals who were involved in the decision-making process or had subsequent responsibilities in administering specific transactions and commitments
- conduct consultations to seek input on the fiscal management and fiscal accountability of the province
- present a report and s to the Premier of Nova Scotia within 90 days after the appointment of the Task Force

Appendix 3

Task Force Members*

Allan Shaw, chair of the task force, is the chair and CEO of the Shaw Group Ltd. and is the past chair of the Voluntary Planning Board. Currently, he is a director of the Bank of Nova Scotia, chairman and Governor of Dalhousie University, he Chairs calmeadow Nova Scotia, and is a Director of the Harvard Business School Alumni Association Board. Among other numerous positions held by Mr. Shaw, he is a director of the Atlantic Institute for Market Studies, governor of Junior Achievement for Mainland Nova Scotia and he is past chair of the Construction Labour Management Board. Mr. Shaw is a graduate of Dalhousie University and graduated from Harvard Business School's MBA program with distinction.

Richard Goldbloom, OC, MD, is a full time teacher and researcher as professor of pediatrics at Dalhousie University and is a member of the active medical staff at the IWK - Grace Health Sciences Centre in Halifax. Among his many achievements, Dr. Goldbloom received the Queen's Jubilee Medal in 1988 and the Confederation Medal in 1993. In 1999 he received the F.N.G. Starr Award, the Canadian Medical Association's highest award for outstanding achievement. He was appointed an officer of the Order of Canada in 1987 in recognition of his contributions to regional health care for children. He has authored over 120 original papers in medical literature, and has served on numerous boards and commissions. Most recently he chaired the Minister's Task Force on Regionalization of Health Care in Nova Scotia.

>Edwin C. Harris, Q.C. F.C.A. is a partner in the law firm of Daley Black & Moreira, with practice concentrating on taxation and estate planning. He is a adjunct professor at Dalhousie Law School and co-chairs the taxation sector committee of Voluntary Planning and is a long standing member of the Voluntary Planning Board. Among numerous appointments, Mr. Harris chairs the Dalhousie Planned Giving Advisory Board, is a director and executive committee member of Sydney Steel Corporation, and is a frequent speaker and moderator at conferences sponsored by the Canadian Tax Foundation. Mr. Harris has authored many articles on taxation and estate planning.

Ray Ivany, a native of Sydney, Nova Scotia, joined the NSCC as President and Chief Executive Officer in October 1998. Prior to joining the College, Mr. Ivany served as Executive Vice President of the University College of Cape Breton. Over the past fifteen years, he has been active in shaping post-secondary education and economic development policy within the region as a member of the Nova Scotia Research, Development and Innovation Advisory Board, Maritime Provinces Higher Education Commission and the Nova Scotia Voluntary Planning Board. He has also served as Special Advisor on education, training and sustainable development at the Atlantic Canada Opportunities Agency in Moncton and as a member of the Federal Task Force on the Northern Cod Fishery in Ottawa. In March 1999 the Prime Minister of Canada appointed Mr. Ivany to the National Roundtable on the Environment and the Economy. He also serves on the Board of the Metropolitan Halifax Chamber of Commerce, as well as the Canadian College Presidents Network.

Dr. Teresa MacNeil is a former Professor at St. Francis Xavier University, a post she occupied from 1970 to 1996. During her tenure as Professor, Dr. MacNeil also served as chair of Cape Breton Development Corporation (1985-88), vice president of Enterprise Cape Breton (1985-87), and president of the Canadian Cooperative Development Foundation (1993-97). Dr. MacNeil has served on a number of public and private boards including the Federal-Provincial task force on the economy of Cape Breton, the Canadian Labour Force

Development Board and the Minister of Industry's Blue Ribbon Panel on Smart Communities. She is currently a member of the board of Elderhostel and serves as chair of the Board of Directors of Sydney Steel Corporation, the Cape Breton Centre for Craft and Design and Agriculture and Agri-Food Canada's Rural Partnerships Pilot Projects Selection Advisory Committee. Dr. MacNeil has published and presented numerous papers on community economic development and has been a guest speaker at conferences, round tables and seminars throughout Canada. Dr. MacNeil lives in Johnstown, Richmond County.

Robert Radchuck, P.Eng, FCA is an independent consultant with extensive experience in industry, professional services, non-profit organizations and government. He is the Chairman of Voluntary Planning, member of Dalhousie University's Board of Governors and the Board of Farmer's Cooperative Dairy Ltd. He has held numerous positions on boards and commissions including Chair of the Art Gallery of Nova Scotia, the Halifax Board of Trade and the Halifax Water Commission.

Dr. Sonia Thon holds a PhD in Spanish Linguistics and Literature from the University of Toronto. She is an Associate Professor of Spanish and former Head of the Department of Spanish at Acadia University, where she has been teaching since 1984. Dr. Thon is past-president of the Acadia University Faculty Association (AUFA) and the Nova Scotia Confederation of Faculty Associations (NSCUFA). That organization has been replaced by the Association of Nova Scotia University Teachers (ANSUT) where she continues to serve and is a previous chair of the Relations with Government Committee. Dr. Thon serves on the Executive and Board of Voluntary Planning representing Labour since 1995.

Gordon Tynes operates a wood processing facility outside Halifax, a business he has owned since 1994. Mr. Tynes holds a Bachelor of Mechanical Engineering from TUNS, Diploma of Engineering from Dalhousie University and a Diploma of Engineering Technology from the Nova Scotia Institute of Technology. Mr. Tynes is a member of the Association of Professional Engineers of Nova Scotia and the chair of the Board of Directors for the Black Business Initiative Society (BBI). Mr. Tynes is originally from Digby, Nova Scotia.

Appendix 4

Invited experts

The following appeared before the Task Force:

Deputy Ministers:

Dr. Patricia Ripley, Deputy Minister, Priorities & Planning

Dr. Nuala Kenny, former Deputy Minister of Health

Bill Hogg, Deputy Minister, Department of Finance

Dr. Thomas Ward, Deputy Minister, Department of Health

Ed Cramm, Deputy Minister, Economic Development

Doug Nauss, Acting Deputy Minister, Department of Education

Ron L'Esperance, Deputy Minister, Community Services

Visiting Experts:

Elizabeth Beale, President & CEO, APEC

Laura Freeman, New Brunswick

Frank McKenna, former Premier of New Brunswick (via conference call)

John Cumberford, Manitoba

Rich Goodkey, Alberta

Martin Ulrich, Federal Treasury Board

Nola Juraitis, Federal Treasury Board

Art Daniels, Ontario

Glenna Carr, Ontario

Others:

Claude Carter, Deputy Auditor General

Ramsey Duff, Assistant Deputy Minister, Department of Finance

Rusty McClellan & Greg Beaulieu, Priorities & Planning

Roy Salmon, Auditor General

Leo Dillman, Nova Scotia

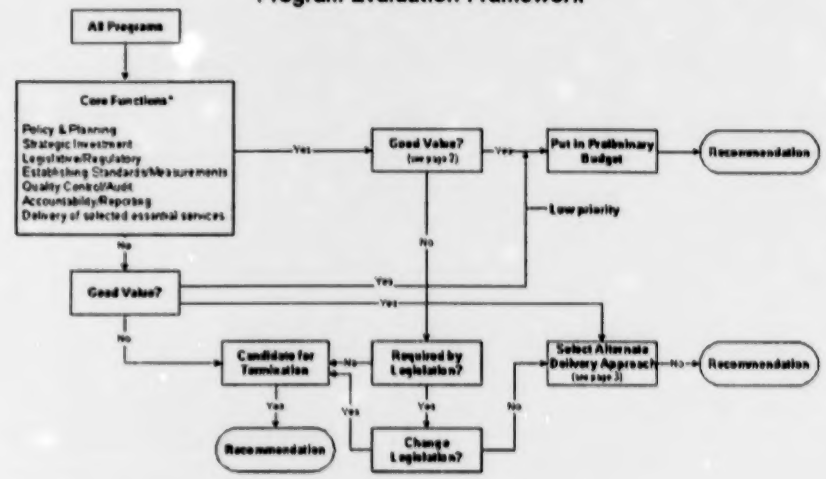
Dennis Pilkey, Nova Scotia

Keith Neumann, Corporate Research Associates

Appendix 5

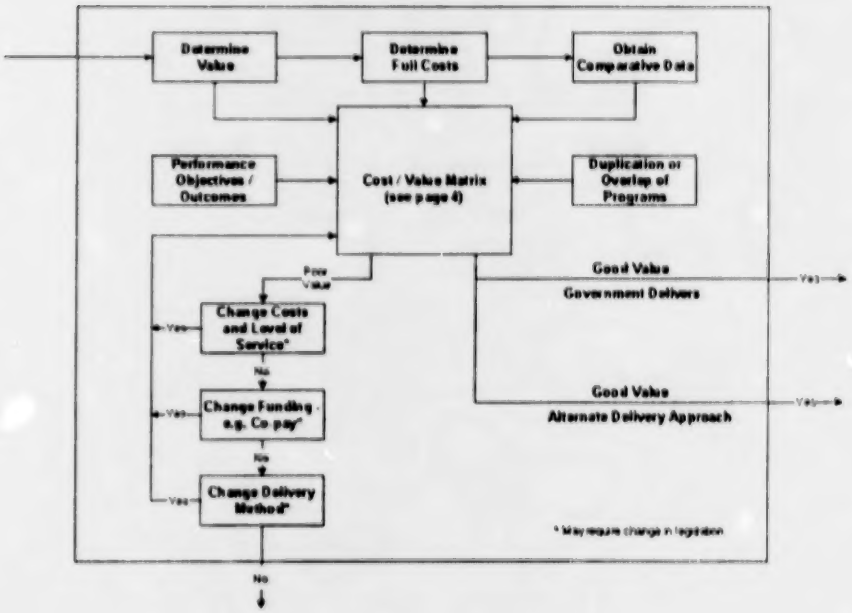
Program Decision Process

Task Force on Fiscal Management
Program Evaluation Framework

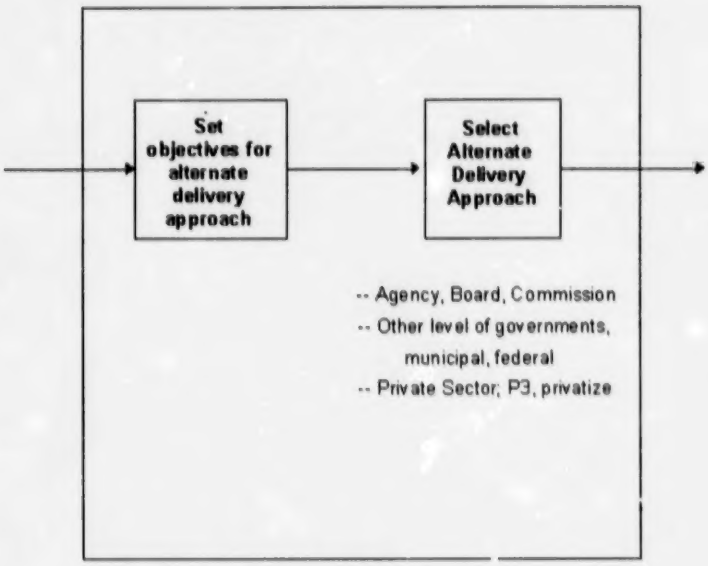


* Primarily in the areas of Health and Social Services, Safety, Growth, Education / Learning, Economic Development and Environmental Stewardship

Task Force on Fiscal Management
Good Value?



Task Force on Fiscal Management
Select Alternate Delivery Approach


Set objectives for alternate delivery approach
Select Alternate Delivery Approach
-- Agency, Board, Commission
-- Other level of governments, municipal, federal
-- Private Sector; P3, privatize

Appendix 6

Planning and Accountability Framework

A. Strategic Direction/Focus

- **20 year plan to eliminate debt**
- **HAVE province within 10 years**
- **5 year major check points**
- **Umbrella of openness and accountability framework**
- **Balanced budget legislation**
- **Strengthened central policy function**

A. Previous year fiscal results with explanation

- **Corporate reporting**
- **Ministerial reporting**

  Both departmental and associated agencies, boards and commissions

- **Accountable agencies, boards and commissions**
- **Clear and understandable presentation in addition to figures**
- **Identification of significant successes and problems**
- **Quarterly reporting (public disclosure of accounting and achievements)**
- **Report on pension liabilities**

- **Report on evaluation of environmental liabilities**

A. Societal Performance Indicators

- **For shaping public policy**
- **Ongoing improvement of indicators**

A. Themes from annual consultation

- **Pre-budget consultation process involves discussion of:**
  - **most recent major check point on strategic direction/focus**
  - **previous year's fiscal results**
  - **societal indicators**
  - **intentions for next year (business plans, budgets)**
- **Consolidate and rationalize themes for incorporation**

A. Multi-year business plans

- **Focus on three year horizon**
  - **corporate**
  - **ministry**
- **Consistent with strategic direction/focus**
- **Three year targets provided to ministries**
- **Advanced timing to produce draft budget in October**

A. Next-year business plan

- **First step in multi-year business plan**
- **Consistent with multi-year business plan and strategic direction/focus**
- **Advanced timing to produce draft budget in October**

A. Next-year estimates derived from business plan

- **Clear example of focus on outcomes**

[Fiscal Management Task Force - Index]

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